

Message Text

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PAGE 01 ROME 04909 081815Z

46

ACTION TRSE-00

INFO OCT-01 EUR-25 EA-11 ISO-00 AID-20 CIAE-00 COME-00

EB-11 FRB-02 INR-10 NSAE-00 RSC-01 XMB-07 OPIC-12

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TO SECSTATE WASHDC PRIORITY 4191

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AMEMBASSY BRUSSELS

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AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

AMCONSUL MILAN

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TAGS: EFIN, IT

SUBJECT: GOI LIMITS GLOBAL BANK CREDIT FOR 1974-5

REF: (A) ROME 3732 DATED MARCH 19, 1974

(B) ROME 7482 DATED JULY 27, 1973

(C) ROME 5593 DATED JUNE 19, 1973

PASS TREASURY AND FRB

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PAGE 02 ROME 04909 081815Z

1. /SUMMARY/. ON APRIL 8 ITALIAN TREASURY MINISTRY WITH
CONSENT OF BANK OF ITALY ADOPTED MEASURES DESIGNED TO LIMIT
CREDIT EXPANSION IN BANKING SYSTEM FOR YEAR ENDING 31 MARCH 1975.
GENERAL RULE IS THAT EACH BANK'S TOTAL CREDIT TO GROUP OF CLIENTS
EACH OF WHOM HAVE LOANS OUTSTANDING OF 30 MILLION LIRE OR
MORE (\$47,319 AT 634 LIRE PER DOLLAR) MAY NOT INCREASE BY MORE
THAN 15 PERCENT FROM END-MARCH 1974 TO
END-MARCH 1975. SEPARATE LIMITATIONS ARE ALSO
APPLICABLE TO SPECIFIC TYPES OF BORROWERS (EG.,
LARGE BORROWERS; LOCAL GOVERNMENTS; AND FINANCIAL,
COMMERCIAL, NON-PROFIT AND FAMILY ENTERPRISES).
EXEMPTION FROM LIMIT IS PROVIDED FOR CERTAIN BORROWERS
AND TEMPORARY EX EPTIONS MAY BE MADE. MEASURE IS SAID
TO BE IN KEEPING WITH OVERALL CEILING ON TOTAL DOMESTIC
CREDIT EXPANSION OF 22400 BILLION LIRE CONTAINED IN IMF "LETTER
OF INTENT" AND TO BE CONSISTENT WITH TOTAL
INCREASE IN DOMESTIC BANK CREDIT OF 8,000 BILLION
LIRE. LATTER FIGURE WOULD REPRESENT AN INCREASE OF 16-17 PERCENT
OVER BANK CREDIT OUTSTANDING ON MARCH 31, 1974. /END SUMMARY/.

2. ON APRIL 8 BANK OF ITALY ISSUED INSTRUCTIONS TO ALL
ITALIAN BANKING AND CREDIT INSTITUTIONS OUTLINING CREDIT
RESTRAINT MESAURES TO BE ADOPTED AS FOLLOWS:

A) ALL BANKS AND CREDIT INSTITUTIONS WHICH ON
31 MARCH 1974 HAD MADE LOANS TO INDIVIDUAL CLIENTS
OF 30 MILLION LIRE OR MORE ARE AUTHORIZED TO INCREASE
TOTAL AMOUNT OF SUCH LOANS BY 8 PERCENT BETWEEN MARCH
31, 1974 AND SEPTEMBER 30, 1974, AND BY TOTAL OF 15 PERCENT FOR
YEAR ENDING MARCH 31, 1975.

B) BANKS AND CREDIT INSTITUTIONS WHICH ON MARCH
31, 1974 HAD CREDITOR POSITION WITH INDIVIDUAL CLIENTS
OF 500 MILLION LIRE OR MORE ARE AUTHORIZED TO EXPAND
TOTAL AMOUNT OF SUCH CREDITS BY 15 PERCENT IN YEAR
ENDING MARCH 31, 1975.

C) 15 PERCENT LIMIT ON EXPANSION OF CREDITS IN
EXCESS OF 30 MILLION LIRE PER BORROWER ALSO APPLIES
TO TOTAL SUCH CREDITS TO STATE PUBLIC ADMINISTRATION ENTITIES
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 ROME 04909 081815Z

AND TO ENTITIES OF LOCAL GOVERNMENT ADMINISTRATION.

D) CREDIT EXPANSION LIMIT ON LOANS IN EXCESS OF 30 MILLION LIRE
PER DEBTOR TO BORROWERS WHICH ARE FINANCIAL ENTERPRISES,
NON-FINANCIAL COMPANIES (IN WHOLESALE, RETAIL AND
OTHER RELATED COMMERCIAL ACTIVITIES), NON-PROFIT
ORGANIZATIONS, FAMILIES AND CERTAIN NON-CLASSIFIED
BORROWERS, IS REDUCED TO 12 PERCENT FOR ONE-YEAR PERIOD

IN QUESTION.

3. EXEMPTED FROM NEW CREDIT CONTROLS ARE ENTITIES ENGAGED IN PRODUCTION AND DISTRIBUTION OF ELECTRICAL ENERGY, THOSE PROVIDING HEALTH SERVICES, THE STATE RAILWAYS AND THE STATE AGRICULTURAL TRADING ORGAN (AIMA). THUS, MEDIUM AND SMALL-SIZED FIRMS WHOSE BANK LOANS DO NOT EXCEED 30 MILLION OR 500 MILLION LIRA LOAN CEILINGS MAY INCREASE THEIR BANK BORROWING BEYOND 15 PERCENT LIMITS. DEROGATIONS TO LIMITS IN PARA 2(A) ABOVE MAY BE MADE TO PERMIT BANKS TO EXCEED 15 PERCENT LIMIT DEADLINE AS OF SEPTEMBER 30, 1974, PROVIDED MARCH 1975 DEADLINE IS MET.

4. /COMMENT/. LATEST RESTRICTIVE CREDIT MEASURES COMPLEMENT CREDIT MEASURES TAKEN IN JUNE-JULY 1973 (SEE REFTELS B AND C) AND REAFFIRM BASIC GOI POLICY OF FAVORING ECONOMIC ACTIVITIES OF SMALL AND MEDIUM-SIZED FIRMS AT EXPENSES OF LARGER FIRMS IN EFFORT TO COMBAT SPECULATIVE USES OF CREDIT LARGER FIRMS. NEW RESTRICTIVE BANK CREDIT MEASURES FIT INTO AGREEMENT WITH IMF TO LIMIT DOMESTIC CREDIT AVAILABILITY. NEW MEASURES ALSO COMPLEMENT INCREASE IN "PRIME" RATE ON FEBRUARY 5 FROM 10 TO 11 PERCENT (REFTEL A) AND RISE IN BANK OF ITALY BASIC DISCOUNT RATE FROM 6.5 TO 9 PERCENT IN MARCH AND REPRESENT MOST RECENT EFFORTS OF GOI TO COMBAT INFLATION AND TO STRENGTHEN BALANCE OF PAYMENTS.VOLPE

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